



## Market and Trade Data

### South Korean Consumers Opt for Convenience

**By Sangyong Oh**

South Korea, a country the size of Indiana and home to 50 million, has an evolving retail food industry. As its predominantly urban population becomes more affluent, convenience is a driving force in the retail food industry. As of 2005, the retail food market was estimated at \$50 billion, up 5 percent from the year before. Though overall growth has slowed in recent years, modern retail outlets are

growing rapidly. Since their introduction in 1993, modern mass retail businesses in South Korea have expanded dramatically, accounting for 40 percent of the retail food sales in 2005.

Large retailers are responding to consumer demand with increased amounts and varieties of convenience food products, online ordering, and delivery service. Hypermarkets have become the single largest retail force in South Korea, and there is room for expansion as demand in dense metropolitan areas fuels growth.

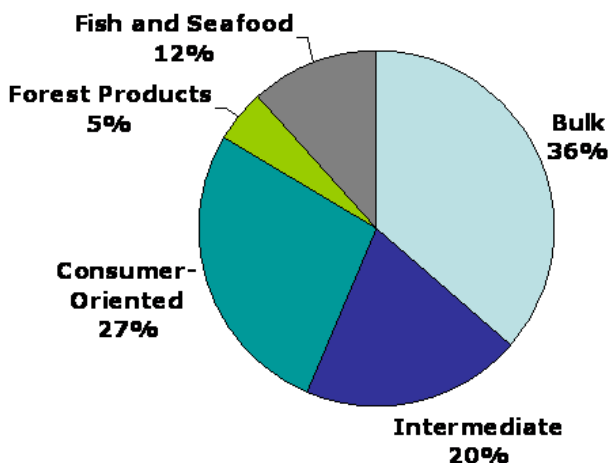
Another phenomenon, online retailers, has grown 189 percent during the past 5 years to almost a tenth of retail sales. Demands for convenience, more products, dense population, and consumers' high affinity for information technology have been key factors behind online shopping growth. By 2008, online shopping sales are expected to be second only to that of mass retailers.

Competition and consolidation within the food retail industry will continue as businesses establish horizontal integration to encompass all retail food shopping formats — hypermarkets, online shopping, convenience stores, supermarkets, and department stores.

#### **Mostly International Retailers Import Directly**

While international retailers do import many of their food products directly, few domestic retailers do, buying instead from specialized importers. Though domestic companies plan to move toward

#### **U.S. Food and Agricultural Exports to South Korea Top \$2.7 Billion**



**In Fiscal 2006, Consumer-Oriented Product Category Grew 18% From Year Before**

direct imports to diversify their offerings, progress is slow. For now, they are focusing on developing private brands, including processed foods, to attract higher profits and customer loyalty.

The growth of mass retail venues has coincided with the rapid development of a modern, large-scale logistics and distribution sector in South Korea. Most mass retailers have nationwide, controlled-temperature distribution networks of trucks and warehouses. Smaller retailers tend to rely on third-party distributors. Many food importers have their own distribution force covering major metropolitan areas, but use third-party distributors further afield.

#### **Consumers Look for Quality, Functional Products**

Like U.S. consumers, Korean shoppers look for better value, convenience, new tastes, and safer and fresher products. For affluent groups and young professionals, quality and image can outweigh price and other factors when making purchasing decisions.

Due in part to increasing health awareness of aging consumers, there is a public emphasis on healthy eating. Organic foods and wines have gained popularity among health-conscious consumers.

Korean culture has long subscribed to the health attributes of ordinary foods. This belief contributes to an ongoing trend to seek these effects in almost every food encountered in the market. As a result, sales of functional foods (regular foods targeting health concerns) with efficacy claims, remain strong; e.g., glucosamine, chlorella, vitamins, antioxidants, lactic bacteria, antlers, pollen, green tea, fish oil, and ginseng and other Asian herbs.

#### **Market Entry**

As with any market, research is important to understand trends and local tastes. The Korean dietary culture is fast evolving, so it is important to keep informed. Korean trends tend to follow and be about 2-5 years later than those of Japan.

Inner-city congestion has impacted distribution and store size. In Seoul, traditional markets and small independent retail outlets still flourish. The convenience store format has made inroads here, but the expansion of hypermarkets and chain supermarkets has been more pronounced in developing suburban areas.

Since distributors and retailers are risk-averse, they often exchange promotional support for slotting fees for new products. In-store promotions are highly recommended, with free sampling most commonly used.

The integrated retailer — and most leading retailers are horizontally integrated to operate across a full spectrum of retail formats — can provide access into its interconnected system.

#### **Competition**

Korean food processors compete directly with imported consumer-ready U.S. products, and consumers are generally

#### **How Will KORUS FTA Affect U.S. Exports to South Korea?**

South Korea is our sixth-largest food and agricultural export market. The United States already supplies a wide range of agricultural products to South Korea including corn, soybeans, wheat, and processed foods.

In 2004, South Korea imported \$14.7 billion in agricultural products to satisfy the demand from its increasingly affluent consumers. In 2006, about \$3.2 billion came from the United States — making us South Korea's largest foreign supplier of these items.

KORUS FTA will create highly valuable new export opportunities for U.S. farmers and ranchers by eliminating and phasing out tariffs and quotas on a broad range of products. Under the agreement, over \$1.9 billion worth of U.S. farm exports to South Korea will become duty-free immediately. Most remaining tariffs and quotas will be phased out over the first 10 years the agreement is in force.

This agreement will also help our producers compete against those in countries such as China and Australia, which are making inroads into the South Korean market.

biased toward homegrown and produced products. However, the food industry depends heavily on imported raw materials and ingredients.

Other competition in consumer-ready foods comes from:

- European countries and Japan for confectioneries and snacks
- Australia, New Zealand, and France for meats and dairy products
- Norway, China, Thailand, and Vietnam for fish products
- China and Chile for fresh fruits and other produce

Imports from China have increased greatly in recent years. South Korea's free trade agreement with Chile has greatly expanded Chile's market share in wines, grapes, pork, and olive oil.

However, a weakening U.S. dollar has helped U.S. products become more affordable and gain an edge against competitors in recent years. Additionally, KORUS FTA, the U.S.-Korea Free Trade Agreement, concluded on April 1, 2007, has focused attention of Korean importers on U.S. products.

#### **What Is Imported?**

With little arable land (South Korea's terrain is 70 percent mountainous), consumers depend heavily on imports as the country's resources cannot supply all their needs. About 70 percent of all foods are imported. In 2006, U.S. consumer-oriented products accounted for \$882 million of the \$2.7 billion worth of U.S. foods imported in 2006.

The recent growth of mass retailers and increasingly sophisticated tastes are translating into opportunities for consumer-ready food products. Large retailers are looking for ways to increase their assortment of imported foods. Best-selling U.S. products include pork, poultry, seafood, processed

vegetables, fruits, tree nuts, dairy products, juices, alcoholic beverages, condiments, sauces, cooking oils, organic foods, coffee, snacks, and confectioneries.

Products with good potential include processed turkey meat, specialty cheeses, soups and broths, ethnic sauces and spices, prepared foods, processed organic products, packaged fresh vegetables, and specialty fresh fruits. Private label branded products also offer new opportunities for U.S. exporters.

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